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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 000478

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TAGS: PREL PGOV ENRG ECON JA CH RU

SUBJECT: ANRE'S HOSAKA DISCUSSES RUSSIA, CHINA ENERGY ISSUES

REF: TOKYO 355

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 (b,d)

¶1. (SBU) Summary. Agency of Natural Resources and Energy (ANRE) Petroleum and Natural Gas Division Director Shin Hosaka accompanied ANRE Director General Harufumi Mochizuki on a visit to Moscow the week of January 29 to talk to Gazprom about Japanese companies aiding the construction of a gas infrastructure in Eastern Siberia. Japanese companies are uninterested, however, because of the difficulty of the projects. Hosaka expressed frustration over Gazprom's takeover of Sakhalin 2 and praised ExxonMobil's management of Sakhalin 1, although he complained that its gas likely would go to China. He lamented the lack of cooperation from China over the East China Sea oil and natural gas dispute and blamed the warming relations between the two countries, claiming it prevents Japan from pressing China too hard to resolve the issue. Hosaka also expressed his relief that the Azadegan issue has gone quiet because it allows him to focus more closely on Japan-Russia and Japan-China energy issues. End summary.

Eastern Siberia

¶2. (SBU) Econoff met with ANRE Petroleum and Natural Gas Division Director Shin Hosaka on January 30 to discuss his visit to Moscow the previous week with ANRE Director General Harufumi Mochizuki. Hosaka explained that the purpose of the visit was to hold discussions with Gazprom about creating a supply system for Eastern Siberian gas projects. ANRE and Gazprom signed an energy cooperation agreement in November 2005 which included energy exploration, pipe-laying and the construction of down-stream facilities in that region; this meeting between Mochizuki and Chairman of Gazprom's Management Committee Alexey Miller was the first meeting since the signing of the agreement. Gazprom is seeking Japanese technology and Miller asked Mochizuki to identify Japanese companies who would work on the East Siberian projects.

¶3. (SBU) Hosaka related that the Japanese companies he had spoken to this week about Miller's request had all reacted

negatively to working with Gazprom because the Eastern Siberian projects are difficult. In addition, Japanese companies are uninterested in the natural gas found there because it is unpure and contains too much helium, making it difficult to convert to liquefied natural gas (LNG), which is the preference of Japanese companies. According to Hosaka, TNK-BP, a Russian-British consortium, has yet to profit from its projects in the area.

Sakhalin 2

¶4. (SBU) Hosaka complained about the tough negotiation tactics of the Russians over Sakhalin 2, calling the outcome unfair. Because it is a commercial enterprise, the GOJ can do nothing to change it, however. He criticized Shell for hammering out an agreement with Gazprom for a 25 percent share of Sakhalin 2 before revealing that the cost of the project had doubled. This greatly angered Gazprom and ended the negotiations. Shortly afterward, the Russian government began to pursue Shell over the project's environmental violations.

Sakhalin 1

¶5. (SBU) Hosaka spoke highly of ExxonMobil's management of Sakhalin 1, particularly the way it had handled the environment. Hosaka also noted that ExxonMobil has a good relationship with the Russian government. ExxonMobil is still negotiating a pipeline to China for Sakhalin 1's natural gas, but Hosaka seemed convinced that the pipeline would be built. Japan and India, both of which have stakes in Sakhalin 1, have protested because they would like the gas

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to be converted to LNG for their own consumption. Hosaka commented that Japan and India's combined share in Sakhalin 1 is 50 percent whereas ExxonMobil's is only 30 percent and yet ExxonMobil likely would ignore the two countries' wishes and sell the gas to China. Hosaka also noted anger in the Diet that despite the large amount of Japanese government money originally invested in exploration of Sakhalin, Japan likely would receive none of its gas. Hosaka said that Sakhalin 1 was likely to make a healthy profit whether Japan bought its gas or not and he hoped that would appease those angry over the gas being sold elsewhere. Japan is unlikely to build a pipeline for the gas due to protests by fishermen over potential damage to their fishing grounds.

East China Sea

¶6. (SBU) Hosaka complained that the Chinese are not cooperating in the effort to achieve a resolution to the dispute over oil and natural gas production in the East China Sea. ANRE and Japan's Ministry of Foreign Affairs continue to try to engage China on the issue with little success. The main bone of contention remains the question of where the exclusive economic zone boundary between the two countries lies. Japan has called for a line halfway between the two countries while China insists that everything up to the edge of its continental shelf belongs to China. The Chinese also refused to attend a technology experts meeting, which the two sides agreed to create during the Japan-China talks in July 2006, because of the lack of agreement over the boundary.

(Note: Japan and China have convened a legal panel to discuss the boundary but have yet to reach a conclusion. See reftel.)

Hosaka noted that Prime Minister Shinzo Abe has already met with Chinese leaders several times and the improved relations between the two countries makes it difficult for Japan to apply too much pressure on China to resolve the problem. Chinese Prime Minister Wen Jiabao is expected to visit Japan in April and the subject likely will be raised again then.

Azadegan

¶7. (SBU) Hosaka expressed his relief that the Azadegan issue has gone quiet because it allows him to focus more closely on

Japan-Russia and Japan-China energy issues.

Comment

¶8. (C) Hosaka was far more relaxed at this meeting than he has been to date. He spoke in clear, heavily accented English. He was very forthcoming, often offering information without prompting, which is a change from previous encounters where he was more cagey. Hosaka's predecessor, Hirofumi Katase, was a major champion of Azadegan so it is unsurprising that Hosaka would be relieved to see the Azadegan problem recede into the background.

SCHIEFFER